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Romania

Dairy and Products

Annual

2004

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Report Highlights:
Domestic supply of raw milk for processing, although still low, is improving in parallel with investments made in collection and cold storage infrastructure. Consumption of dairy products is modest, but urban demand is pushing product diversification, quality improvement and attractive packaging. In the recently concluded accession negotiations with EU, the national reference quantity for milk was set for Romania at 3,057,000 MT. Added to this will be the "Reserve" (in 2009) that will supplement the quota by accounting for current on-farm consumption.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Sofia [BU1]
[RO]

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Production

National statistics reveal a 3 percent increase in raw milk production for the first 8 months of the marketing year 2004. Robust feed availability later in the year, provided by bumper grain crops, leads us to forecast a 5 percent increase in milk production for the full marketing year.

Although improving, milk sanitation and collection continues to constrain expansion of the commercial sector. Supply has a strong seasonal trait and is very dispersed in the territory, as the number of raw milk producers is around 1.2 million, of which only less than 900 hold more than 15 cows. Improving very slowly, the average yield per cow is low, because of deficient feeding and husbandry practices.

In order to ensure some control over both milk quantity and quality, some of the large processors provide additional incentives and services to their suppliers. One example is to give farmers dairy heifers, with future payment in milk.

The EU position on the sector, as described in the documents of the Romania-EU Accession Conference

After Romania initially requested a 7.7 million MT milk quota in its EU accession negotiations, it subsequently revised its request for a milk quota to 5 million MT. The sector is characterized by thousands of subsistence farms, which make it difficult to estimate total marketable production. To develop it estimate, the EU considered it appropriate to establish the direct sales quota on the total milk production minus deliveries and minus estimated of on-farm consumption (including animal feed) in the absence of firm statistics from Romania.

Also, it was considered more appropriate to use a very recent reference period to establish the milk quota, i.e. the period 2000-2002, since the quality of statistics has generally improved after 2000. This resulted in a total national reference quantity for milk set for Romania at 3,057,000 MT of which 1,093,000 MT for deliveries and 1,964,000 MT for direct sales. This, together with the “Reserve” quota that might add in 2009 in order to count for current on-farm consumption, reflects Romania’s potential to improve milk collection, cold storage and processing facilities.

As for direct payments, EU documents underlines that these will be gradually introduced over a period of ten years with the following schedule of increments expressed as a percentage of the then applicable level of such payments in the EU-15 (2007 – 25%, 2008 – 30%, 2009 – 35%, 2010 – 40%). Thereafter the amount will increase by annual 10% increments so as to reach the support level then applicable in the EU-15.

Romania requested a transitional period until December 31, 2009 for modernizing and re-vamping the milk processing units, as well as for the organising the milk collecting and standardisation centers in order to comply with the Community structural requirements regarding cow milk farms and quality of raw milk obtained.

Romania provided EU a list of 28 milk-processing establishments, approved by the national veterinary authority, where transitional measures are requested until December 31 2009. Another 27 milk-processing establishments are expected to comply with EU requirements by the date of accession, approved by the General Veterinary Inspectorate. Whether transition periods were granted, products from establishments subject to transitional arrangements will not be sold to other Member States and will be clearly identified with a special health mark. Those establishments which do not benefit from a transition period and which are expected to fully comply with the *acquis* by the time of accession but fail to do so, will have to terminate their activities.

The EU documents show that Romania is required to improve staffing, staff training and to ensure greater involvement, monitoring and supervision by the central authorities.

As regards the request for a transitional period relating to raw milk, the EU notes that the delivery of such milk is channelled only to establishments located in Romania and controlled by the General Veterinary Inspectorate. The EU reiterates that the length of the transitional period requested for each premises should be related to the parameters for which the transitional period is requested and should be as short as possible. The EU underlines that non-compliant raw milk and raw milk from non-compliant farms can be delivered for processing only to establishments benefiting from a transitional period. In addition, the EU stresses the importance of ensuring the effective nature of the controls on raw milk separation.

The EU also emphasizes the need to introduce the HACCP system in dairy establishments in Romania at the latest by the date of accession (Article 14 of Directive 92/46/EEC).

Romania requested, for the traditional cheese brands Nasal, Bradet, Homorod (smoked cheese, etc), the application of the provisions of Decision 97/284/EC relating to the conditions for the production, products characteristics and placing on the market.

The EU notes that Romania has provided information and clarification concerning the production of traditional milk based products.

Production, Supply and Demand Table

Romania							
Dairy, Milk, Fluid							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Cows In Milk	1541	1684	1538	1694	0	1690	(1000 HEAD)
Cows Milk Production	5270	5400	5230	5680	0	5700	(1000 MT)
Other Milk Production	350	350	360	363	0	355	(1000 MT)
TOTAL Production	5620	5750	5590	6043	0	6055	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	2	2	2	2	0	1	(1000 MT)
TOTAL Imports	2	2	2	2	0	1	(1000 MT)
TOTAL SUPPLY	5622	5752	5592	6045	0	6056	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Fluid Use Dom. Consum.	3550	3662	3430	3770	0	3755	(1000 MT)
Factory Use Consum.	1400	1400	1500	1550	0	1575	(1000 MT)
Feed Use Dom. Consum.	672	690	662	725	0	726	(1000 MT)
TOTAL Dom. Consumption	5622	5752	5592	6045	0	6056	(1000 MT)
TOTAL DISTRIBUTION	5622	5752	5592	6045	0	6056	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)

Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Production, Supply and Demand Table

Romania							
Dairy, Cheese							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	5	0	5	0	5	0	(1000 MT)
Production	93	23	100	26	0	28	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	0	2	0	2	0	2	(1000 MT)
TOTAL Imports	0	2	0	2	0	2	(1000 MT)
TOTAL SUPPLY	98	25	105	28	5	30	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	3	0	3	0	4	(1000 MT)
TOTAL Exports	0	3	0	3	0	4	(1000 MT)
Human Dom. Consumption	93	22	100	25	0	26	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	93	22	100	25	0	26	(1000 MT)
TOTAL Use	93	25	100	28	0	30	(1000 MT)
Ending Stocks	5	0	5	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	98	25	105	28	0	30	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0.4	0	0.7	0	0	(1000 MT)

Production, Supply and Demand Table

Romania							
Dairy, Butter							
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2003		01/2004		01/2005	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	7	6	7	9	0	10	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Total Imports	3	3	2	3	0	2	(1000 MT)
TOTAL Imports	3	3	2	3	0	2	(1000 MT)
TOTAL SUPPLY	10	9	9	12	0	12	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Total Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)

Domestic Consumption	10	9	9	12	0	12	(1000 MT)
TOTAL Use	10	9	9	12	0	12	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	10	9	9	12	0	12	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Consumption

Of the about 5.5 – 5.7 million MT of milk produced (of which some 350,000 MT is sheep and goat milk), processing plants are expected to absorb about 25 percent in 2004 (compared to 21 percent in 2000-2002) and collection is improving together with investments in cold storage and processing facilities (including under EU-Sapard[1] funding).

Sales of raw, non-pasteurized milk to final consumers in open markets were forbidden by the veterinary authorities at the end of 2003. Although shrinking, this channel still makes up for a significant part of the marketed domestic production, especially in the rural area.

Household self-consumption remains high, around 40 percent. Another 12 percent of the total production is used as feed.

Dairy products consumption is low compared to Western countries (reaching, in 2003, 197 liters/capita compared to 355 liters/capita in Germany or 700 liters/capita in the Netherlands), but with an upward trend (statistics show that in the first half of 2004 per capita milk and dairy consumption was ½ liter higher than in January-June 2003). In fact, industry figures show that consumption of processed (pasteurized) liquid milk per capita stood in 2003 at 6.4 liters, versus 65-70 liters in most EU states. Nonetheless, urban demand is increasingly sophisticated and product diversification targeting certain population segments (e.g., women: low fat, high vitamin and fiber content) is the core of the efforts made by companies to better position themselves on the market.

Companies assess that consumption of fresh milk, white cheese (Feta-like), and pressed (sheep) cheese will steadily grow. The share of yogurt and other sour milk products is estimated at over 20 percent of the total industrial dairy production value.

Butter consumption has increased steadily from 2003, narrowing the margarine share, basically because the former is a dairy product - perceived as "natural" and consequently healthier than the latter, a processed product with abundant use of food additives.

Annual ice-cream sales in Romania surged to 13 thousand tons in 2003 (or, in value terms, to 35 million euros), from 10 thousand tons in 1998-2001, the market being dominated by 3 players (Delta Romania, Alpin 57 Lux Sebes and Napolact (Friesland), who together hold 60 percent of the total value sales. Ice-cream consumption is not traditional in the local diet, like in other countries like US, Canada, Germany or France, but companies admit there is substantial growing potential and, consequently, investments in the sector are assessed to exceed 70 million euros and are still increasing. Local consumers prefer chocolate and vanilla assortments and show strong attachment to brands (80 percent of the sales are in branded products). Highest consumption is within the teenager population (13-18 year old). Many

[1] For the dairy industry, Sapard grants can cover 50% of the total project cost.

ingredients for the ice-cream industry (flavorings, additives, dry fruits) as well as packaging materials are imported from EU (Germany, Austria).

Powder milk production depends heavily on the state – funded program to provide free infant formula milk to children less than one year old. In 2003, Romania produced 13.3 MT of powder milk, but production in the first semester of 2004 is 27 percent up, as more local producers became eligible to sell under the Government program.

Dairy products market is dominated by a number of international and local players: Danone (French). Napolact (with the Dutch investment of Friesland), Covalact (with Campina (Dutch) investment), Hochland (Dutch), Prodlacta Brasov. The sector is very dynamic in the food industry and continues to attract investors' interest (reportedly from Yoplait (French) and Tnuva (Israeli-based).

Trade

Romania remains a net importer of dairy products, including small quantities of raw milk for processing brought from the neighboring countries. Hungary continues to be the main supplier of both raw milk and processed, packed milk. Fluid milk imports are likely to stay fairly stable, at about 2,000 MT.

Cheese production is expected to slightly increase, together with improvements in milk collection and processing. In 2004 imports are forecast to reach 2,000 MT, consisting mainly of special cheeses (different varieties of pressed cheese, Suisse cheese, blue cheese) primarily from the EU and Hungary. Exports between 3,000 and 4,000 MT are expected, mainly of feta-type cheese to Greece, US, Germany, Lebanon. According to Romanian Customs, in 2003 the country shipped 371 MT of feta-type cheese to US, but this amount may double by the end of 2004.

Figures for January-August make us anticipate that imports of butter will remain stable, at about 3,000 MT, mainly originating from EU countries, that are able to ship under preferential arrangements (Table 1).

Table 1. Import Duties on Selected Dairy Products, 2004

HS Code		WTO bound tariff	MFN duty	Special EU preference
0401	Milk and dairy cream, concentrated	248	45	15-18.8 for 1500 MT
0405	Butter	200	45	18.8 for 1900 MT
0406	Cheese	270	45	0 for 2700 MT

Import Trade Matrix

Country Romania

Commodity Dairy, Milk, Fluid

Time Period	CY	Units:	MT
Imports for:	2003		**Jan-Aug 2004**
U.S.	0	U.S.	0
Others		Others	
Hungary	1673	Hungary	603
Germany	79	Germany	140
France	34		20
Bulgaria	26		10
Ireland	17		
		Slovakia	163
		Poland	92
		The Czech Rep.	38
		Spain	4
Total for Others	1829		1070
Others not Listed	0		49
Grand Total	1829		1119

Import Trade Matrix

Country Romania

Commodity Dairy, Cheese

Time Period	CY	Units:	MT
Imports for:	2003		**Jan-Aug 2004**
U.S.	0	U.S.	0
Others		Others	
Germany	1198	Germany	900
France	480	France	334
Hungary	128	Hungary	16
Denmark	109	Denmark	63
Italy	86	Italy	73
		Australia	60
		Poland	55
Total for Others	2001		1501
Others not Listed	84		9
Grand Total	2085		1510

Export Trade Matrix

Country Romania

Commodity Dairy, Cheese

Time Period	CY	Units:	MT
Exports for:	2003		**Jan-Aug 2004**
U.S.	371	U.S.	305
Others		Others	
Greece	1675	Greece	1164
Germany	622	Germany	166
Lebanon	157	Lebanon	177
Italy	107	Italy	168
Australia	75	Australia	23
		Poland	12
		France	7
		UK	2
Total for Others	2636		1719
Others not Listed	7		4
Grand Total	3014		2028

Import Trade Matrix

Country Romania

Commodity Dairy, Butter

Time Period	CY	Units:	MT
Imports for:	2003		**January-August 2004**
U.S.		U.S.	
Others		Others	
Germany	2117	Germany	1142
The Netherlands	745	The Netherlands	651
France	317	France	170
Hungary	87	Belgium	81
Belgium	60	Poland	79
Portugal	20	Portugal	48
		Italy	19
Total for Others	3346		2190
Others not Listed			7
Grand Total	3346		2197

Prices

The annual price pattern for raw milk for processing show strong appreciation in fall and winter and depreciation in summer. Nonetheless, farm-gate prices constantly climbed in 2004, varying (per HL) between $23 in January-February and 16.5 in July. (see Prices Table). These levels are still considered unacceptably low by farmers and seem to be a disincentive for farmers to sell to the processing industry. However, the high additional costs (related to difficult collection from small farms, with precarious sanitation and poor transport infrastructure) prevent processors from offering higher bids for the raw milk they acquire.

Prices Table

Country	Romania		
Commodity	Dairy, Milk, Fluid		
Prices in	US$	per uom	HL
Year	2003	2004	% Change
Jan	14.8	23.0	56%
Feb	15.7	23.4	49%
Mar	16.0	23.0	44%
Apr	15.7	20.6	32%
May	15.4	19.3	25%
Jun	14.2	17.9	26%
Jul	13.7	16.5	20%
Aug	13.2	17.9	35%
Sep	14.2	20.8	47%
Oct	15.7		
Nov	17.6		
Dec	21.2		
Exchange Rate	Monthly off ave	Local Currency/US $	

Farm-gate prices (VAT not included).

Policy

In 2004 the GOR continued its support programs through both measures exempted from the reduction commitment (“Green Box”-type) and market price support (disbursed as procurement payments) for several commodities, including milk. The former type of support is provided to help recovery of the livestock sector (lump sum for heifers bearing calves for the first time and for newly born calves resulted through artificial insemination). For the latter type, 1,760 billion lei (approximately $52.5 million at the current exchange rate) were budgeted in 2004 to be paid to farmers who deliver their production to processors. This amount is below the *de minimis* level Romania is entitled to according to its WTO commitments. The unit subsidy for standard cow milk 3.5% fat sold to processors currently varies between $0.05/liter in summer and 0.07/liter in winter.